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Macroeconomic policy questions: external debt crisis and development

Report of the Second Committee*

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I. Introduction

1. The Second Committee held a substantive debate on agenda item 91 (e) (see A/58/481, para. 2). Action on sub-item (e) was taken at the 24th and 40th meetings, on 3 November and 16 December 2003. An account of the Committee's consideration of the sub-item is contained in the relevant summary records (A/C.2/58/SR.24 and 40).

II. Consideration of draft resolutions A/C.2/58/L.18 and A/C.2/58/L.82

2. At the 24th meeting, on 3 November, the representative of Morocco, on behalf of the States Members of the United Nations that are members of the Group of 77 and China, introduced a draft resolution entitled "External debt crisis and development" (A/C.2/58/L.18), which read:

> "*The General Assembly*,
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> "*Recalling* its resolutions 51/164 of 16 December 1996, 52/185 of 18 December 1997, 53/175 of 15 December 1998, 54/202 of 22 December 1999, 55/184 of 20 December 2000, 56/184 of 21 December 2001 and 57/240 of 20 December 2002 on enhancing international cooperation towards a durable solution to the external debt problems of developing countries,

* The report of the Committee on this item will be issued in seven parts, under the symbol A/58/481 and Corr.1 and Add.1-6.

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"*Recalling also* the United Nations Millennium Declaration adopted by heads of State and Government on 8 September 2000,

"*Reaffirming* the Monterrey Consensus of the International Conference on Financing for Development, which recognizes sustainable debt financing as an important element for mobilizing resources for public and private investment,

"*Recalling* its resolution 57/270 B of 23 June 2003 on the integrated and coordinated implementation of and follow-up to the outcomes of the major United Nations conferences and summits in the economic and social fields,

"*Concerned* that the current global economic recovery is uneven and that world economic growth is well below its potential, which poses additional difficulties for a durable solution to the external debt problems of developing countries,

"*Noting with great concern* in this regard that the total debt stock of the developing countries rose from 1,421.6 billion dollars in 1990 to 2,384.2 billion dollars in 2002,

"*Also noting with great concern* that the continuing debt and debt-servicing problems of the heavily indebted poor developing countries constitutes an element that adversely affects their sustainable development efforts and the achievement of the Millennium Development Goals,

"*Noting with concern* that some highly indebted, low and middle-income developing countries continue to face serious difficulties in meeting their external debt-servicing obligations, which seriously constrains their efforts to ensure sustained economic growth and sustainable development,

"*Recognizing* the increase of net transfer of financial resources from developing to developed countries, which reached an unprecedented high of $192 billion in 2002 owing, inter alia, to low levels of official development assistance as a source of external finance, volatility in the international financial system and a decline in the export earnings of developing countries, in particular those that are highly dependent on exports of primary commodities, as an important reason for the uncertain prospects for attaining debt sustainability,

"*Convinced* that enhanced market access for goods and services of export interest contributes significantly to debt sustainability in developing countries,

"*Noting* that little progress has been made on the enhanced Heavily Indebted Poor Countries Initiative designed to provide deeper, broader and faster relief, while recognizing that significant challenges remain to ensure that countries achieve a lasting exit from unsustainable debt,

"*Welcoming* the actions taken by creditor countries within the framework of the Paris Club and by some creditor countries through the cancellation of bilateral debts, and urging all creditor countries to participate in efforts to remedy the external debt and debt-servicing problems of developing countries, taking note also of the proposals contained in the Deauville Communiqué issued by the Ministers of Finance of the Group of Eight in May 2003 concerning the reform of the Paris Club and debt reduction, in exceptional

cases, for countries not qualifying for debt relief under the Heavily Indebted Poor Countries Initiative,

"*Also welcoming* the call in the communiqué issued by the Joint World Bank/International Monetary Fund Development Committee in September 2003 urging all official and commercial creditors to participate in the Heavily Indebted Poor Countries Initiative, and emphasizing the important role that private sector creditors should play in debt relief and debt sustainability,

"*Recognizing* the current debate on sovereign debt restructuring, especially the efforts led by sovereign debtors and private creditors to develop a voluntary code of conduct, and stressing that modalities for sovereign debt restructuring should be voluntary, market-friendly and flexible, with due consideration of the specific circumstances of individual countries, and should result from the participation of all relevant stakeholders,

"*Noting* the increasing voluntary use of collective action clauses in sovereign bond contracts by both developing and developed countries,

"1. *Takes note* of the report of the Secretary-General on external debt crisis and development;

"2. *Reaffirms* the determination, as expressed in the United Nations Millennium Declaration, to deal comprehensively and effectively with the debt problems of low- and middle-income developing countries, through various national and international measures designed to make their debt sustainable in the long term;

"3. *Emphasizes* that the creation of an equitable international financial system along with increased levels of official and private external financing, official development assistance and foreign direct investment are prerequisites for a durable solution to the external debt problems of developing countries;

"4. *Stresses* the importance of early operationalization of the working group established by the World Trade Organization to examine the relationship between trade, debt and finance in order to enhance the capacity of the multilateral trading system to contribute to a durable solution to the problem of external indebtedness of developing countries;

"5. *Recognizes* that creditors and debtors must share the responsibility for preventing and resolving unsustainable debt situations and that debt relief can play a key role in liberating resources that should be directed towards poverty eradication, wealth creation, sustainable growth, development and the achievement of the Millennium Development Goals;

"6. *Stresses* that sustainable debt financing is an important element for mobilizing resources for public and private investment, and that national comprehensive strategies to monitor and manage the external liabilities embedded in the domestic preconditions for debt sustainability, including sound macroeconomic policies and public resource management, are a key element in reducing national vulnerabilities;

"7. *Also stresses* that debt sustainability depends upon a confluence of many factors, such as the availability and cost of private and official financing,

and underscores that no single indicator should be used to make definitive judgements about debt sustainability;

"8. *Reiterates* the call on industrialized countries, as expressed in the Millennium Declaration, to implement the enhanced programme of debt relief for the heavily indebted poor countries without further delay and to agree to cancel all official bilateral debts of those countries in return for their making demonstrable commitments to poverty reduction, and in this regard welcomes the decision of those countries that have already done so, emphasizing that debt relief complementary to the framework be treated as additional;

"9. *Stresses* the need to pursue, where appropriate, debt relief measures vigorously and expeditiously, by all creditors, including within the Paris and London Clubs and other relevant forums, and welcomes other bilateral initiatives that have been undertaken to reduce outstanding indebtedness, so as to contribute to debt sustainability and facilitate sustainable development;

"10. *Calls upon* the international community, including the United Nations system, and urges the Bretton Woods institutions as well as the private sector, to take appropriate measures and actions for the implementation of the commitments, agreements and decisions of the major United Nations conferences and summits, in particular those relating to the question of the external debt problem of developing countries, and in this regard stresses the need:

"(a) To implement speedily, effectively and fully the enhanced Heavily Indebted Poor Countries Initiative, which should be fully financed through additional resources, while stressing the need for fair, equitable and transparent burden-sharing among the international public creditor community and other donor countries, and take into consideration, as appropriate, measures to address any fundamental changes in the economic circumstances of those developing countries that have an unsustainable debt burden caused by natural catastrophes, severe terms-of-trade shocks or conflict, taking into account initiatives that have been undertaken to reduce outstanding indebtedness;

"(b) To bring about a sustained commitment on the part of the heavily indebted poor countries to improvements in domestic policies and economic management, to support capacity-building for the management of financial assets and liabilities, to ensure full participation and delivery of relief by all affected creditors, to ensure adequate and sufficiently concessional financing by international financing institutions and the donor community, and to consider an early review of the difficult issues of HIPC-to-HIPC debt relief and creditor litigation;

"(c) To bring international debtors and creditors together in relevant international forums to restructure unsustainable debt in a timely and efficient manner, taking into account the need to involve the private sector in the resolution of crises due to indebtedness, where appropriate;

"(d) To acknowledge the problems of the debt sustainability of some low-income countries that are not heavily indebted, in particular those facing exceptional circumstances;

"(e) To reduce the unsustainable debt burden of developing countries through such actions as debt relief and, as appropriate, debt cancellation and other innovative mechanisms geared to comprehensively addressing the debt problems of developing countries, in particular the poorest and most heavily indebted ones;

"(f) To encourage exploring innovative mechanisms to comprehensively address the debt problems of developing countries, including middle-income countries, and countries with economies in transition; such mechanisms may include debt-for-sustainable-development swaps, or multi-creditor debt swap arrangements, as appropriate;

"(g) To establish effective debt-tracking mechanisms in developing countries and strengthen technical assistance for external debt management and debt tracking, including through enhanced cooperation and coordination between organizations providing assistance in this regard;

"(h) To take steps to ensure that resources provided for debt relief do not detract from official development assistance resources intended to be available for developing countries and that the debt relief arrangements seek to avoid imposing any unfair burden on other developing countries;

"(i) To welcome consideration by all relevant stakeholders of an international debt-work-out mechanism, in the appropriate forums, the adoption of which should not preclude emergency financing in times of crisis, to promote fair burden-sharing and minimize moral hazard, which will engage debtors and creditors to come together to restructure unsustainable debts in a timely and efficient manner;

"(j) To establish a set of clear principles for the management and resolution of financial crises that provide for fair burden-sharing between the public and private sectors and among debtors, creditors and investors, while recognizing that a flexible mix of instruments is needed to respond appropriately to the varying economic circumstances and capacities of different countries;

"11. *Stresses* the importance of continued flexibility with regard to the eligibility criteria for the enhanced Heavily Indebted Poor Countries Initiative, in particular for countries in post-conflict situations, and the need to keep the computational procedures and assumptions underlying debt sustainability analysis under review;

"12. *Emphasizes* the need to help bring about initial recovery in heavily indebted poor post-conflict countries, in coordination with the international financial institutions, to help clear, as appropriate, the arrears of those countries vis-à-vis international financial institutions;

"13. *Reaffirms* that reviews of debt sustainability should also bear in mind the impact of debt relief on progress towards the achievement of the development goals set out in the Millennium Declaration and the fact that debt sustainability analysis at the completion point needs to take into account any worsening global growth prospects and declining terms of trade, especially for commodity export countries;

"14. *Notes* that it is important for the International Monetary Fund and the World Bank to continue their efforts to strengthen the transparency and integrity of debt sustainability analysis and to consider any fundamental changes in countries' debt sustainability caused by natural catastrophes, severe terms-of-trade shocks or conflict when making policy recommendations, including for debt relief, as appropriate;

"15. *Stresses* the need to strengthen the institutional capacity of developing countries in debt management, calls upon the international community to support the efforts made towards this end, and in this regard stresses the importance of such initiatives as the Debt Management and Financial Analysis System, the International Monetary Fund and World Bank guidelines for public debt management, and the debt-management capacity-building programme;

"16. *Emphasizes* the need for faster implementation of the enhanced Heavily Indebted Poor Countries Initiative and actions aimed at reducing the unsustainable debt burden of developing countries;

"17. *Requests* the Secretary-General to submit a report to the General Assembly at its fifty-ninth session on the progress achieved in the implementation of the present resolution and to include in that report a comprehensive and substantive analysis of the external debt and debt-servicing problems of developing countries, inter alia, those resulting from global financial instability;

"18. *Decides* to include in the provisional agenda of its fifty-ninth session, under the item entitled 'Macroeconomic policy questions', the sub-item entitled 'External debt crisis and development'."

3. At the 40th meeting, on 16 December, the Chairman, on behalf of the Vice-Chairman of the Committee, Henri S. Raubenheimer (South Africa), introduced a draft resolution entitled "External debt crisis and development" (A/C.2/58/L.82), which he submitted on the basis of informal consultations held on draft resolution A/C.2/58/L.18.

4. At the same meeting, the representative of Morocco orally corrected operative paragraph 18 of the draft resolution.

5. Also at the 40th meeting, the Committee adopted draft resolution A/C.2/58/L.82, as orally corrected (see para. 7).

6. In the light of the adoption of draft resolution A/C.2/58/L.82, draft resolution A/C.2/58/L.18 was withdrawn by its sponsors.

III. Recommendation of the Second Committee

7. The Second Committee recommends to the General Assembly the adoption of the following draft resolution:

External debt crisis and development

The General Assembly,

Recalling its resolutions 51/164 of 16 December 1996, 52/185 of 18 December 1997, 53/175 of 15 December 1998, 54/202 of 22 December 1999, 55/184 of 20 December 2000, 56/184 of 21 December 2001 and 57/240 of 20 December 2002 on enhancing international cooperation towards a durable solution to the external debt problems of developing countries,

Recalling also the United Nations Millennium Declaration adopted by heads of State and Government on 8 September 2000,[1]

Reaffirming the Monterrey Consensus of the International Conference on Financing for Development,[2] which recognizes sustainable debt financing as an important element for mobilizing resources for public and private investment,

Recalling its resolution 57/270 B of 23 June 2003 on the integrated and coordinated implementation of and follow-up to the outcomes of the major United Nations conferences and summits in the economic and social fields,

Concerned that the current global economic recovery is uneven but determined to ensure that it leads to sustained world economic growth, to sustainable development and to a durable solution of the external debt problems of developing countries,

Noting in this regard that the total debt stock of the developing countries rose from 1,421.6 billion dollars in 1990 to 2,384.2 billion dollars in 2002,

Noting with great concern that the continuing debt and debt-servicing problems of the heavily indebted poor developing countries constitute one of the many elements that adversely affect their sustainable development efforts, and bearing in mind their impact on the achievement of the internationally agreed development goals including those contained in the Millennium Declaration,

Noting with concern the fact that some highly indebted, low- and middle-income developing countries continue to face serious difficulties in meeting their external debt-servicing obligations, which constitutes an element that seriously constrains their efforts to ensure sustained economic growth and sustainable development,

Noting that, in 2002, developing countries as a whole made net outward transfers of financial resources for the sixth consecutive year, and underscoring the need for measures, as appropriate, at the national and international levels to address this issue so as to enhance the prospects for debt sustainability, while noting also the

[1] See resolution 55/2.

[2] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

fact that for some developing countries those transfers, at the present time, indicate positive developments in the trade balance, and were required, inter alia, for debt repayment,

Convinced that enhanced market access for goods and services of export interest to developing countries contributes significantly to debt sustainability in developing countries,

Welcoming the positive impact of the enhanced Heavily Indebted Poor Countries Initiative, while recognizing that significant challenges remain, and inviting all developed bilateral creditors to forgive on a unilateral basis up to 100 per cent of all remaining claims after HIPC debt relief,

Welcoming also the actions taken by creditor countries within the framework of the Paris Club and by some creditor countries through the cancellation of bilateral debts, urging all creditor countries to participate in efforts to remedy the external debt and debt-servicing problems of developing countries, and noting the Evian Approach of the Paris Club of October 2003 and that debt relief does not replace alternative sources of financing,

Emphasizing the important role that private sector creditors play in debt relief and debt sustainability,

Welcoming the call in the communiqué issued by the Development Committee (the Joint Ministerial Committee of the Boards of Governors of the World Bank and the International Monetary Fund on the Transfer of Real Resources to Developing Countries) on 22 September 2003 in Dubai[3] urging all official and commercial creditors to participate in the Heavily Indebted Poor Countries Initiative,

Recognizing the current debate on sovereign debt restructuring, especially the efforts led by sovereign debtors and private creditors to develop a voluntary code of conduct, and stressing that modalities for sovereign debt restructuring should be voluntary, market-friendly and flexible, with due consideration of the specific circumstances of individual countries, and should result from the participation of all relevant stakeholders,

Noting the increasing voluntary use of collective action clauses in sovereign bond contracts by both developing and developed countries,

1. *Takes note* of the report of the Secretary-General;[4]

2. *Reaffirms* the determination, as expressed in the United Nations Millennium Declaration,[1] to deal comprehensively and effectively with the debt problems of low- and middle-income developing countries, through various national and international measures designed to make their debt sustainable in the long term;

3. *Emphasizes* that the international financial system, along with enhanced official and private external financing and foreign direct investment, are key elements for a durable solution to the external debt problems of developing countries;

4. *Stresses* that sustainable debt financing is an important element for mobilizing resources for public and private investment, and that national

[3] *IMF Survey*, vol. 32, No. 17 (6 October 2003), pp. 275-277.
[4] A/58/290.

comprehensive strategies to monitor and manage the external liabilities embedded in the domestic preconditions for debt sustainability, including sound macroeconomic policies and public resource management, are a key element in reducing national vulnerabilities;

5. *Welcomes* the World Trade Organization Working Group on Trade, Debt and Finance and its mandate to examine the relationship between trade, debt and finance so as to enhance the capacity of the multilateral trading system to contribute to a durable solution to the problem of external indebtedness of the developing and least developed countries, and to strengthen the coherence of international trade and financial policies, with a view to safeguarding the multilateral trading system from the effects of financial and monetary instability, and takes note of its report of 11 July 2003 to the General Council of the World Trade Organization;[5]

6. *Recognizes* that creditors and debtors must share the responsibility for preventing and resolving unsustainable debt situations and that debt relief can play a key role in liberating resources that should be directed towards activities consistent with attaining poverty eradication, sustainable economic growth and sustainable development and with the achievement of the internationally agreed development goals, including those contained in the Millennium Declaration, and in this regard urges countries to direct those resources freed through debt relief, in particular through debt cancellation and reduction, towards these objectives;

7. *Stresses* that debt sustainability depends upon a confluence of many factors at the international and national levels, and stresses that no single indicator should be used to make definitive judgements about debt sustainability, and emphasizes that country circumstances should be taken into account;

8. *Recalls* the call upon industrialized countries, as expressed in the Millennium Declaration, to implement the enhanced programme of debt relief for the heavily indebted poor countries without further delay and to agree to cancel all official bilateral debts of those countries in return for their making demonstrable commitments to poverty reduction, and in this regard welcomes the decision of those countries that have already done so, emphasizing that debt relief complementary to the framework should be treated as additional;

9. *Calls upon* those heavily indebted poor countries that have not already done so, to take, as soon as possible, the policy measures necessary to become eligible for the enhanced Heavily Indebted Poor Countries Initiative and to reach the decision point, inter alia, through the formulation of poverty reduction strategies, where they exist;

10. *Stresses* the need to pursue, where appropriate, debt relief measures vigorously and expeditiously, by all creditors, including within the Paris and London Clubs and other relevant forums, and welcomes other bilateral initiatives that have been undertaken to reduce outstanding indebtedness, so as to contribute to debt sustainability and facilitate sustainable development;

11. *Calls upon* the international community, including the United Nations system, and invites the Bretton Woods institutions as well as the private sector to take appropriate measures and actions for the implementation of the commitments, agreements and decisions of the major United Nations conferences and summits, in

[5] Document WT/WGTDF/2.

particular those relating to the question of the external debt problem of developing countries, and in this regard stresses the need:

(a) To implement speedily, effectively and fully the enhanced Heavily Indebted Poor Countries Initiative, which should be fully financed through additional resources, while stressing the need for fair, equitable and transparent burden-sharing among the international public creditor community and other donor countries, and take into consideration, as appropriate, measures to address any fundamental changes in the economic circumstances of those developing countries that have an unsustainable debt burden including those caused by natural catastrophes, severe terms-of-trade shocks or conflict, taking into account initiatives that have been undertaken to reduce outstanding indebtedness;

(b) To continue to bring about a sustained commitment on the part of the heavily indebted poor countries to improvements in domestic policies and economic management, to support capacity-building for the management of financial assets and liabilities, to ensure full participation and delivery of relief by all affected creditors, to ensure adequate and sufficiently concessional financing by international financing institutions and the donor community, and to further explore options to address the difficult issues of HIPC-to-HIPC debt relief and creditor litigation;

(c) To continue to bring together international debtors and creditors in relevant international forums to restructure unsustainable debt in a timely and efficient manner, taking into account the need to involve the private sector in the resolution of crises;

(d) To acknowledge the problems of the debt sustainability of some low-income countries that are not heavily indebted, in particular those facing exceptional circumstances, and in this regard to note the tailored treatment for non-HIPC developing debtor countries adopted by the Paris Club to ensure that debt restructuring provides non-HIPC debtor countries with a debt treatment that reflects their financial needs and the objective of ensuring long-lasting debt sustainability;

(e) To reduce the unsustainable debt burden of developing countries through such actions as debt relief and, as appropriate, debt cancellation and other innovative mechanisms geared to comprehensively addressing the debt problems of developing countries, in particular the poorest and most heavily indebted ones;

(f) To encourage exploring innovative mechanisms to comprehensively address the debt problems of developing countries, including middle-income countries, and countries with economies in transition; such mechanisms may include debt-for-sustainable-development swaps, or multi-creditor debt swap arrangements, as appropriate;

(g) To establish effective debt-tracking mechanisms in developing countries and strengthen technical assistance for external debt management and debt tracking, inter alia, through enhanced cooperation and coordination between organizations providing assistance in this regard;

(h) To take steps to ensure that resources provided for debt relief do not detract from official development assistance resources intended to be available for developing countries and that the debt-relief arrangements seek to avoid imposing any unfair burden on other developing countries;

(i) To welcome consideration by all relevant stakeholders of an international debt-work-out mechanism, in the appropriate forums, the adoption of which should not preclude emergency financing in times of crisis, to promote fair burden-sharing and minimize moral hazard, which will engage debtors and creditors to come together to restructure unsustainable debts in a timely and efficient manner;

(j) To establish a set of clear principles for the management and resolution of financial crises that provide for fair burden-sharing between the public and private sectors and among debtors, creditors and investors, while recognizing that a flexible mix of instruments is needed to respond appropriately to the varying economic circumstances and capacities of different countries;

12. *Stresses* the importance of continued flexibility with regard to the eligibility criteria for the enhanced Heavily Indebted Poor Countries Initiative, in particular for countries in post-conflict situations, and the need to keep the computational procedures and assumptions underlying debt sustainability analysis under review;

13. *Emphasizes* the need to help bring about initial recovery in heavily indebted poor post-conflict countries, in coordination with the international financial institutions, to help clear, as appropriate, the arrears of those countries vis-à-vis international financial institutions;

14. *Reaffirms* that reviews of debt sustainability should also bear in mind the impact of debt relief on progress towards the achievement of the development goals set out in the Millennium Declaration and the fact that debt sustainability analysis at the completion point needs to take into account any change in the global growth prospects or in the terms of trade, especially for commodity export developing countries;

15. *Notes* that it is important for the International Monetary Fund and the World Bank to continue their efforts to strengthen the transparency and integrity of debt sustainability analysis and to consider any fundamental changes in countries' debt sustainability caused by natural catastrophes, severe terms-of-trade shocks or conflict when making policy recommendations, inter alia, for debt relief, as appropriate;

16. *Stresses* the need to strengthen the institutional capacity of developing countries in debt management, calls upon the international community to support the efforts made towards this end, and in this regard stresses the importance of such initiatives as the Debt Management and Financial Analysis System of the United Nations Conference on Trade and Development,[6] the International Monetary Fund and World Bank guidelines for public debt management,[7] and the debt-management capacity-building programme;

17. *Invites* the United Nations Conference on Trade and Development, the International Monetary Fund, and the World Bank, in cooperation with the regional

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[6] The Debt Management and Financial Analysis System is a computerized system developed by the United Nations Conference on Trade and Development to assist developing countries and countries with economies in transition to develop appropriate administrative, institutional and legal structures for effective foreign and domestic public debt management. By December 2002, the system had been installed in the debt offices of sixty countries in Africa, Asia, Europe and Latin America and the Caribbean.

[7] See www.imf.org/external/np/mae/pdebt/2000/eng.

banks, regional commissions and multilateral institutions, to study the possibility of creating a consultative group on external debt management aiming at developing best practices and strengthening the institutional capacity of developing countries in debt management, taking into account work that has already been done;

18. *Requests* the Secretary-General to submit a report to the General Assembly at its fifty-ninth session on the implementation of the present resolution and to include in that report a comprehensive and substantive analysis of the external debt and debt-servicing problems of developing countries, inter alia, those resulting from global financial instability;

19. *Decides* to include in the provisional agenda of its fifty-ninth session, under the item entitled "Macroeconomic policy questions", the sub-item entitled "External debt crisis and development".